Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council on Intsika Yethu Local Municipality

Report on the audit of the financial statements

Unqualified opinion

1. I have audited the financial statements of the Intsika Yethu Local Municipality set out on pages … to …, which comprise statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Intsika Yethu Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act no. 3 of 2016) (DORA).

Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

4. I am independent of the Intsika Yethu Local Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics* for *professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Debt Impairment – Receivables from non-exchange transactions

7. A material debt impairments of R5 966 594 on receivables from non-exchange transactions was disclosed in note 5 to the financial statements.

Unauthorised expenditure

1. Unauthorised expenditure of R142,5 million that has accumulated over a number of years and that has not been recovered, written off or condoned is disclosed in note 35 to the financial statements.

Irregular Expenditure

8. As disclosed in note 37 to the financial statements, irregular expenditure of R2,8 million (2015-16: R64,6 million) was incurred in the current year due to non-compliance with procurement prescripts and regulations. Irregular expenditure amounting to R141,9 million was written off as irrecoverable, after council approval.

Restatement of corresponding figures

9. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors only discovered during the year ended 30 June 2017.

Other matters

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the preparation of the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

13. In preparing the financial statements, the accounting officer is responsible for assessing the Intsika Yethu Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the Intsika Yethu Local Municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Intsika Yethu Local Municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the Intsika Yethu Local Municipality for the year ended 30 June 2017:

Development priorities	**Pages in the annual performance report**
KPA 1: Basic services and infrastructure development	x – x
KPA 2: Local economic development (LED)	x – x

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

KPA 1: Basic service delivery and infrastructure development

Objective: To ensure compliance to traffic regulations and enhance revenue within IYM

21. The strategic objective was reported as "To ensure compliance to traffic regulations and enhance revenue within IYM" while the planned strategic objective was approved as "To ensure compliance to traffic regulations" in the service delivery and budget implementation plan (SDBIP). This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Indicator: ITP and Storm water management plan developed and adopted by Council

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target which is: Review and update of ITP and Storm water management by 30 June 2017. This was due to the indicator having been removed from the planned SDBIP but was incorrectly shown as an achieved target in the performance report. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of ITP and Storm water management reviewed by 30 June 2017.

Various indicators

23. The indicators and/or targets were reported differently in the annual performance report to what they were in the approved SDBIP. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)

24. The following indicators and/or targets were affected:

No.	Indicator as reported in the performance report	Target reported on in the performance report	Approved Indicator in the SDBIP	Approved Target in the SDBIP
1	Indigent register with representation of all wards	6500 indigent households to be included in 2016/17 indigent register	Indigent register with representation of all wards	6500 indigent households to be included in 2016/17 indigent register
2	Number of households served and waste bins provided.	Provide 30 waste bins and clean daily in order to have a good aesthetic town throughout the year.	Number of households serviced.	2229 households to receive waste management services by 30 June 2017
3	No of km maintained	Nyamankulu Access Road Ntshanyana	No of km maintained	Qwebeqwebe Access road Lutshabeni

No.	Indicator as reported in the performance report	Target reported on in the performance report	Approved Indicator in the SDBIP	Approved Target in the SDBIP
		Access road Qwebeqwebe Access road Nyoka access road Lutshabeni Access road Camama to ntshingeni access road		Access road Camama to ntshingeni access road Nxelesa Access Road Mkhwinti Access Road Maxhama Access Road Makwababa Access Road Hoyita Access Road Ntshanyana Access road Ndlunkulu Access Road Qwebeqwebe Access Road (Main) Porly Access
4	ITP and Storm water management plan developed and adopted by Council	Reviewal and update of ITP and Storm water management by 30 June 2017.	No indicator planned	No target planned
5	Vehicle testing station constructed.	Construction of a Vehicle testing station Main operating offices Motor cycle testing slab	Vehicle testing station constructed.	Construction of a Vehicle testing station Main operating offices Motor cycle testing slab

No.	Indicator as reported in the performance report	Target reported on in the performance report	Approved Indicator in the SDBIP	Approved Target in the SDBIP
		Vehicle impound yard by June 2017		Vehicle impound yard by June 2017.
6	Number of infrastructure/assets maintained and constructed	Construction of Cofimvaba public toilets by 30 June 2016.	Number of infrastructure/assets maintained and constructed	Construction of Cofimvaba public toilets by 30 June 2016. Plumbing and electrical installation Procurement of security gate and installation Procurement of solar system Installation of Solar system
7	No. of infrastructure/assets maintained and constructed	Development of Cofimvaba Sport Centre phase2 by June 2017 Procurement of Service Provider. Appointment of service provider Site Establishment Storm-water channelling Paving of site	No. of infrastructure/assets maintained and constructed	Development of Cofimvaba Sport Centre phase2 By June 2017

KPA 3: Local economic development (LED)

Various indicators

25. The indicators and/or targets were reported differently in the annual performance report to what they were in the SDBIP. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)

26. The following indicators and/or targets was affected:

No.	Indicator as reported in the performance report	Target reported on in the performance report	Approved Indicator in the SDBIP	Approved Target in the SDBIP
1	Consistent cattle intakes into the custom feeding pens	Attend to snag list at Gxwalubomvu (plastering of feed troughs, construction of two rows wall and renovations of shed at Ncora Custom Feeding b 30 June 2017.	Refurbished custom feeding pens	Attend to snag list at Gxwalubomvu (plastering of feed troughs, construction of two rows wall and renovation of roof, feeding troughs and water troughs at Ncora Custom Feeding pens by 30 June 2017
2	Facilitated funding and number of jobs created.	Facilitate creation of at least 1000 jobs through CWP by 30 June 2017.	Facilitated funding and number of jobs created.	Facilitate creation of at least 1000 jobs through CWP and EPWP programmes.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a number of targets.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic Service delivery and Infrastructure and Local Economic. As management did not subsequently correct the misstatements, I reported material findings on the usefulness and reliability of the reported performance information.

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the Intsika Yethu Local Municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

31. The material findings on compliance with specific matters in key legislations are as follows:

Procurement and contract management

32. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

Annual financial statements , performance and annual reports

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

34. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

35. The annual performance report for the year under review did not include a comparison with the previous financial year and/or measures taken to improve performance, as required by section 46(1)(c) of the MSA.

Expenditure Management

36. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R242 077, as disclosed in note 36 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

37. Effective steps were not taken to prevent irregular expenditure amounting to R2,8 million as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the municipality not following the SCM regulations for obtaining written price quotations as required by SCM reg.12.

Strategic planning and performance management

38. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Other information

39. The Intsika Yethu Local Municipality accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.

40. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

41. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

42. The other information I obtained prior to the date of this auditor's report was the mayor's foreword and executive summary, the accounting officer's responsibilities and approval, and the municipal manager's overview, and the final annual report is expected to be made available to me after 30 November 2017.

43. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. No inconsistencies were found between other information reported in the annual financial statements and information reflected in the annual performance report.

44. When I do receive and read the final annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the compliance with legislation included in this report.

46. Leadership did not fully implement their action plan to address prior year audit findings in respect of financial and performance processes, as well as compliance with laws and regulations. As a result the internal control deficiencies were not adequately addressed and resulted in repeat findings.

47. Adequate daily, weekly and monthly processes have not always been implemented over the financial and performance recording and reporting processes, including year-end reporting. A number of disclosures in the financial statements are dependent on manual

reconciliations and schedules at year end. This resulted in a set of financial statements and an annual performance report that contained material misstatements, requiring adjustment through the external audit process.

49. The appropriate level of management did not adequately monitor compliance with internal policies and procedures and laws and regulations in order to prevent non-adherence. Leadership did not provide adequate oversight with respect to these processes and as a result, the necessary corrective action to ensure that non-compliance is avoided was not implemented.

50. Internal audit did not fully implement their mandate during the year, and the audit committee was appointed late in the year. As a result, these structures were not able to provide a high level of assurance and give recommendations for management to implement to improve the internal controls.

Auditor General

East London

30 November 2017

AUDITOR-GENERAL
SOUTH AFRICA

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